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SUBJECT: Opel Rescue Effort Enters Critical Stage

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¶1. (SBU) Summary. Opel's "rescue" enters a critical stage as the government's 6:00 pm May 20 deadline for investor bids looms. In preparation, the federal government, the German states where Opel factories are located, and several state-owned banks agreed in principle on May 19 on a roughly 1.5 billion euro "bridge loan" to tide Opel over until arrangements can be made for new ownership. The government is also actively considering an independent trust for the bridge financing, but has made no formal decision. Complicating German government decision-making is the anticipated Chapter 11 bankruptcy for GM at the end of May. German Economics Ministry officials have been in frequent contact with U.S. Treasury, but acknowledge (contrary to German media reports) that Treasury has not taken a position on the "trust" concept the German cabinet may consider next week. German media also widely reported that Economics Minister zu Guttenberg will lead a delegation to Washington this weekend, but Chancellery and Ministry contacts denied that any such trip is scheduled at this time. End Summary.

¶2. Due in part to the sensitivity of business proprietary information, the German Economic Ministry and other agencies, including the Chancellery, have been unusually mum about the Opel issue. As a result, the media has issued conflicting, and often false, reports based largely on hearsay and rumors. This report attempts to identify what we know (or think we know) and what we do not know about certain key questions on the ongoing Opel saga, based in part on conversations that EMIN and Econ Counselor had May 20 with senior Chancellery and Economic Ministry officials who are involved in the discussions.

Ownership of the "New Opel"

¶3. (U) The Chancellor and her party have consistently rejected state participation in Opel. Even the SPD, which once supported a state share in Opel, now agrees with its coalition partner, the CDU/CSU, on founding a "trust" administered by an independent entity. This would enable Opel to access loans to tide it over until new ownership takes control and, at least superficially, avoids the appearance of a government share in Opel. Underlying this consensus is a broad awareness of how difficult it would be to extricate the government from running the company once it became a co-owner.

¶4. (SBU) A Chancellery official acknowledged to the Embassy that the decision on an investor and the size of its stake in Opel is up to GM to determine in its negotiations with potential buyers, not the government's. For the Government, he said, the primary criterion is whether the investor(s) can offer a long-term business plan for a profitable, viable Opel although clearly they would like to save as many plants and jobs as possible. Senior Economics Ministry and Chancellery

officials repeatedly emphasized that to date the Cabinet had made no formal decisions on any key issues, including creation of an independent trust. The Cabinet may be forced to make some hard choices in its next meeting on May 27, as this will be the last cabinet meeting before GM is expected to become insolvent on May 29. A senior Chancellery contact stressed, however, that even then, everything will depend on how the bids for Opel look and how discussions proceed with GM.

The Contenders

¶5. (U) At least three bidders are expected to submit offers by this evening's deadline. Fiat, now cooperating with Chrysler, has gone to great lengths to lobby for support at the federal and state level, but is faced with serious opposition from both Opel and its own employees who suspect Fiat will close plants throughout Europe and cut up to 18,000 jobs in the two companies once they are merged. Press reports say Fiat and GM have been unable to agree on a GM share to date with Fiat advocating a GM 20% share and GM wanting 40%. It is also unclear how much cash Fiat would actually bring to the table.

¶6. (SBU) Even less is known about other prospective suitors. Canadian-Austrian auto parts manufacturer Magna is expected to bid for up to a 20% stake while its partners Russian auto manufacturer Gaz and the Russian State Bank (Sberbank) may perhaps take 30%, with GM retaining 40% and Opel dealers and employees the remaining 10%, according to press stories. A senior Opel representative told us that the Magna concept would require strong GM participation. U.S. finance investor

Ripplewood is also expected to participate as may other financial investors. Although some reports have suggested Ripplewood is already out of contention, our Chancellery interlocutor made reference to the possibility of a "consortium" of financial institutions taking over Opel. Opel/GM will forward its initial assessment of the bids to the Federal Government as soon as possible. Minister zu Guttenberg has stated that if no offer is acceptable, Opel will go into controlled insolvency.

Bridging Loans for Opel

¶7. (U) Just 24 hours before the expiration of the May 20 deadline for bids, the Federal Government, interested states, and several state-owned banks (including KfW) agreed on a 1.5 billion bridge loan package (other estimates range between 1-2 billion Euros). Opel itself had claimed it urgently needed 1.2 to 1.3 billion. The federal and state governments would guarantee the loans, which would require the approval of the Bundestag's Budget Committee, but not the entire parliament. The funds would be available as "a bridge" until a new investor can take over. Not only do the modalities of new Opel ownership have to be legally clarified but, according to Hesse Minister President Roland Koch, Opel itself would have to go through the registration process to obtain a separate European legal identity for its new ownership structure. Unnamed Government sources say that October is the deadline. If the issue is not resolved by then, Opel would go into a controlled insolvency.

The U.S. Angle: zu Guttenberg to Washington?

¶8. (SBU) The media has repeatedly reported that an Opel Task Force led by Economics Minister zu Guttenberg - perhaps including representatives from the Chancellery, Economics and Finance Ministries - would travel to Washington over the weekend to negotiate details of the deal with the U.S. Treasury (and GM). Senior officials from the Economics

Ministry and the Chancellery confirmed to Embassy that there are no concrete plans to travel at this time. According to the Chancellery, nothing will happen until Chapter 11 and other key decisions on GM become clearer.

German Views on U.S. Treasury Role

¶9. (SBU) Contrary to media reports that the U.S. Treasury was "blocking" a deal, the Economic Ministry stated that Treasury "has not taken a position" on the German trust concept and implied that it would make their lives easier if the USG did decide one way or the other. A senior Opel representative claimed on May 19 that he had the impression the U.S. Treasury was entirely focused on GM North American activities and had no interest in its European operations. Despite these mild grumblings, however, few observers, even in the media, are placing the bulk of the blame for Opel's plight on the USG or GM, as there is a general recognition that it is part of a worldwide crisis in the industry.

The Role of the EU

¶10. (U) The German Government may also need the approval of the EU Commission and other member states with Opel plants. The independent trust would not require approval, but a loan package with 100% financing by state-run banks would. Yet other member states are not expected to object to interim German funds to keep Opel afloat. The crunch may come when a successful bidder emerges, as it will almost inevitably involve plant closures somewhere in Europe as well as job cuts. However, our Chancellery contact noted ongoing talks with the EU and was optimistic that EU approval will be forthcoming.

Koenig